

Message Text

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PAGE 01 MANILA 02226 131229Z

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ACTION EB-03

INFO OCT-01 SS-14 ISO-00 EA-06 L-01 CIAE-00 INR-05 SP-02

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 2129

INFO AMEMBASSY TAIPEI

C O N F I D E N T I A L MANILA 2226

LIMDIS

E. O. 11652: GDS

TAGS: EAGR, RP

SUBJECT: COTTON CONTRACT PROBLEMS

FOR UNDERSECRETARY ROBINSON FROM AMBASSADOR SULLIVAN

REF: (A) STATE 032431

(B) MANILA 2191

1. I AM DISTURBED BY IMPLICATIONS OF REF A, WHICH ADVISED US THAT DEPARTMENT SUPPORTS POSITION OF U.S. COTTON BROKERS, WHO INTEND TO CANCEL CONTRACTS FOR SUPPLY OF COTTON WHERE CONTRACT PRICE IS BELOW CURRENT WORLD MARKET PRICE. AS INDICATED REF B, THIS SELECTIVE CANCELLATION WILL RESULT IN HANDS-OFF ATTITUDE BY GOP WITH RESPECT THOSE REMAINING CONTRACTS WITH PRICE PROVISIONS ABOVE THE MARKET PRICE. GOP ATTITUDE IS UNDERSTANDABLE REACTION AND WILL PLACE EMBASSY IN AWKWARD POSITION IF WE ARE EXPECTED TO CONTINUE PUSHING FOR PHILIPPINE FULFILLMENT OF THOSE CONTRACTS WHICH ARE NOT CANCELLED.

2. THE MORE DISTURBING FEATURE OF THIS PROPOSAL (AND OF DEPARTMENT'S ENDORSEMENT OF IT) CONCERNS THE POSITION IN PRINCIPLE WHICH WE HAVE TAKEN RE SANCTITY OF CONTRACTS. NO MATTER WHAT ARGUMENTS BROKERS MAY ADDUCE, FACT REMAINS CONFIDENTIAL

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PAGE 02 MANILA 02226 131229Z

THAT THEIR PROPOSAL WILL BE TAKEN TO MEAN THAT CONTRACTS

HAVE SANCTITY ONLY SO LONG AS THEY ARE PROFITABLE. ONCE MARKET MARGIN SHIFTS IN OTHER DIRECTION, SANCTITY DIS-APPEARS. I DON'T KNOW WHAT PROVISIONS THESE CONTRACTS HAVE FOR EXTENSION, BUT I SHOULD BE SURPRISED IF THOSE PROVISIONS ARE PATENTLY MORE FAVORABLE TO SELLER THAN THEY ARE TO BUYER.

3. I WOULD THEREFORE SUGGEST THAT DEPARTMENT'S ENDORSEMENT OF THIS PROPOSAL BE CAREFULLY REVIEWED. IF IT GOES THROUGH, I FEEL I WILL RUEFULLY HAVE TO ADVISE YOU THAT THIS EMBASSY CANNOT RPT NOT EXPECT TO BE ABLE TO GET GOP COOPERATION FOR ADMINISTRATIVE ENFORCEMENT OF ANY FUTURE CONTRACTUAL OBLIGATIONS WHERE FILIPINO BUYERS ARE IN DEFAULT BECAUSE PRICE CHANGES HAVE OPERATED AGAINST THEIR INTERESTS.

4. THIS IS A FAIRLY FUNDAMENTAL ISSUE FOR OUR FUTURE COMMERCIAL REPUTATION AND PRACTICES IN THIS COUNTRY. PLEASE GIVE IT THE STUDIED ATTENTION WHICH I FEEL IT DESERVES.
SULLIVAN

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